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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001991

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E.O. 12958: DECL: 09/25/2015

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SUBJECT: HONDURAS: SOME GOH AND IMF WORRIES OVER COST OF  
FUEL SUBSIDIES; REJECTION OF ENERGY-SAVING RESTRICTIONS

REF: A. A) TEGUCIGALPA 1851

[1](#)B. B) TEGUCIGALPA 1873

[1](#)C. C) TEGUCIGALPA 1910

[1](#)D. D) TEGUCIGALPA 1970

[1](#)E. E) TEGUCIGALPA 1971

Classified By: ECONCHIEF PDUNN FOR REASONS 1.5(B AND D)

[1](#)1. (C) Summary: In an emergency session on September 22, the GOH Council of Ministers declared an energy state of emergency in Honduras and imposed a number of energy conservation measures, but did not directly address fuel prices, which apparently remain frozen without a formal Congressional decree. Taxi drivers and gas station owners have rejected the new plan, and intend to defy it or go on strike. Price rises in gasoline, widely expected for September 27, are unlikely to happen, according to senior GOH officials. Oil companies remain deeply concerned that they will have to absorb the losses from selling gasoline at below-market prices, while the GOH is concerned that, if it were to cover those costs, it would break faith with the IMF. The Fund, meanwhile, is intent on saving the GOH from itself, but does not yet see a reason to panic over fuel prices, and will be sending an advisory team later this week. End Summary.

[1](#)2. (U) Taxi and Bus Drivers: Transport workers have rejected the September 22 decision of the GOH Council of Ministers to redesign bus routes and limit taxi access to downtown areas in the name of reducing fuel consumption. Taxi drivers have loudly complained that they offer a door-to-door service, and restricting their access to downtown would significantly hurt their ability to earn a living. Capitalizing on their newfound status as popular heroes (for blockading the city until gasoline prices were reduced - refs A and B), taxi drivers have also refused to accept announced plans for subsidies only to registered taxi drivers (refs D and E). Representatives of the taxi drivers have announced that if gasoline prices are increased on September 27 they will again strike and again block city traffic throughout Tegucigalpa. (Security implications of this threat will be reported septel).

[1](#)3. (U) Gasoline Station Operators: The Honduran Association of Gas Station Owners (ADHIPPE) has rejected the Council of Ministers prohibition on gasoline sales on Sundays and has vowed to defy the ban. According to group spokespersons, the ban is illogical and will fail in its stated goal of reducing consumption, since drivers will merely fill up on Saturday or Monday instead. Further, the group claims it is dangerous, since it will promote the operation of "backyard pumps" (bombas de patio) selling gasoline on Sundays.

[1](#)4. (C) Minister of the Presidency Ramon Medina Luna told Charge on September 26 that the Commission of Notables (a group established by the GOH to examine reforming the GOH-managed fuel pricing regime) would likely issue a statement but not recommend an increase in fuel prices on September 27. While this might avert another taxi strike, it leaves U.S. oil companies in a dangerously undefined situation, as no source of funds has been formally identified to reimburse them for selling imported fuel at below-market rates. (Despite the lack of a decree to this effect, gasoline prices remain frozen at August 26 levels, with importers currently absorbing the loss.) Minister Medina Luna reported that the price freeze has cost the GOH 73 million lempiras (approximately USD 3.9 million) in the first 20 days, and he fears if this spending continues the GOH could break its spending limits agreed to with the International Monetary Fund (IMF).

[1](#)5. (C) EconChief spoke September 26 with IMF Resident Representative Hunter Monroe, who said the GOH spent 35 million lempiras in the first 10-day period of the price freeze (the period that was to be reimbursed by the GOH, according to the Congressional decree.) Since 0.1 percent of GDP is approximately 172 million lempiras, it would take six

10-day periods "for it to even cause a blip on the radar screen." The Fund is not overly worried at present with GOH spending in this regard, though they are somewhat concerned by the open-ended nature of the current price-freeze and its potential longer-term fiscal implications. At GOH request, an IMF team will be visiting Honduras September 28-30 to examine the options on the table for closing the IMF review "in light of any recommendations from the Commission of Notables." One way the GOH could limit their upside risk, Monroe noted, is to invest in futures or options on the petroleum markets. "They are just not that expensive," he said. The key thing to remember, he told Post, is that the Fund is "looking for a way to keep this (PRGF) program going." The GOH has a history of losing fiscal discipline in the run-up to national elections. This year, the GOH has managed to maintain that discipline thus far, and elections are only two months away. If the GOH can keep their program on the straight and narrow, they will pass on to the new government a solid fiscal situation that no previous administration has had.

16. (C) EconChief also contacted Vice Minister of Commerce Iris de Coello, who is responsible for the Commerce Ministry while Minister Irving Guerrero is out of the country. (The Petroleum Technical Unit -- UTP, the GOH office responsible for setting fuel prices -- is housed within the Ministry of Commerce.) Coello said she has no information on when or if gasoline prices will change. The Commission of Notables will make a recommendation, she said, and only then will her Ministry take any action to adjust prices. (Note: The former head of the UTP, Perfecto Aguilera, is also out of the country, reportedly on leave but in actuality having been dismissed from the UTP after a falling out with the Minister. Aguilera was a well-respected technician responsible for implementing the gasoline-pricing formula, but, in the view of the Minister, with too narrow a focus. According to Minister Guerrero, with whom EconChief spoke on September 23, Aguilera will resume his price-setting duties, but from an office within the Ministry of the Presidency. The UTP will be expanded, Guerrero said, to enable it to deal with broader energy policy issues including biodiesel, renewable energy, and ethanol. End Note.)

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